On his September trip to the United States, Japanese Prime Minister Fumio Kishida attended the United Nations’ annual General Assembly session, and later gave a well-received speech at the Economic Club of New York. His remarks included a comment about how his administration was actively considering a series of policy steps intended to reinvigorate Tokyo’s place in the global financial system; raise Tokyo’s profile as an important financial hub for Asia; and implicitly, regain market share that had been long lost to Hong Kong, and more recently to Singapore. The prime minister’s intentions are laudable, and his suggestions are worth taking seriously. In any case, the proposals under consideration are generally good for financial markets in Tokyo.

Cynics will ask whether the horse has left the barn. In a world where continuous face-to-face interaction is less and less necessary for financial transactions, it is fair to ask what it really means to be a financial hub in the twenty-first century. But Japanese officials are not wrong to be concerned about revitalizing Tokyo as an international financial center.

Let’s start by acknowledging that the Japanese government—including the prime minister’s office, the Ministry of Finance (MoF), the Financial Services Agency (FSA), and other official bodies—is serious and prepared to take steps to make Tokyo an attractive place for international financial firms to situate their Asian headquarters. After years of asking market participants for recommendations, policymakers have in hand a menu of policy adjustments that make a lot of sense. The list is long, with proposals ranging from offering official business documentation in English, to having special one-stop and fast-track approval processes, to adjusting tax law. Adjustments to tax law are a major issue: for example, the creation of a temporary tax resident status, relaxation of exit tax rules for foreign nationals, and adjustment of tax rules related to the transfer of overseas assets are constructive, long-standing suggestions. Similarly, adjustments to immigration rules related to foreign domestic workers would make it easier for expats to replicate some of the lifestyle benefits that they enjoy in other areas of East Asia.

Some of the proposals are easy-to-implement, low-cost, measures that would make life less difficult for foreign firms and expats who want to make Tokyo a regional base. And some of them (e.g., major changes to financial sector law and regulation) are harder to imagine, but possible.
The three following observations can be made. First, essentially all of the world’s major financial centers of the twentieth century had common law–based legal and regulatory systems. Japan, like France, has a civil law–based system. This difference matters. Both systems function smoothly in the operational sense, but international finance has been dynamic precisely because it rests upon a legal framework that tends to be permissive with guardrails, as opposed to restrictive with an only-allowed-with-permission structure. The point here is not to litigate the virtues and failings of the world’s two most prominent legal systems. The point is that the Japanese government should be honest with itself about the legal and regulatory norms that it collectively thinks of as Japanese, in the context of attracting foreign financial firms to Tokyo. The right kind of policy shifts could be transformative. That said, from a political perspective, some of them will appear to be very challenging.

Second, timing matters, and now may be the right time to take policy risks; a window of opportunity may be closing. The reabsorption of Hong Kong into the People’s Republic of China that started under Carrie Lam is now well advanced, and the city has gone from being the preeminent regional hub for Asian finance to being something much less. It continues to lose vitality. A city that had Anglo law with Chinese characteristics (and geography) is now a different place, having adopted Chinese rules with a superficial Anglo form. That transformation has been an unhappy experience for the cosmopolitan residents of the former crown colony, but it is an opportunity for competing financial centers.

Singapore, to pick the obvious example, has benefited from Beijing’s heavy-handed approach to Hong Kong. With common law already in place, an existing and well-developed financial community, and not-dissimilar geographic advantages, Singapore is a natural option for regional headquarters and staff as the Hong Kong business environment deteriorates. But Singapore is physically smaller than Hong Kong, and if the latter occasionally felt like the Chinese version of the financial Wild West, the former feels more like a very buttoned-down, engineered community. So while some of what had been Hong Kong’s centrality, and commercial verve, has moved slightly west, a lot of it has been dispersed far and wide. Dubai has picked up some of the slack, and no doubt some of the business has moved back to London and New York—maybe as an interim step, or maybe for good. There is no preeminent Asian financial hub today. It is still in play, and that is a window of opportunity.

Third, the metaphorical pie may be shrinking. What if—in a post-COVID world—a central fact of our new environment is that financial centers, like money itself, have been substantially dematerialized? Even the undisputed global financial centers—New York and London—have experienced some of this new reality. Bank and broker-dealer headquarters are no longer beehives of activity, creativity, and deal-making. They are more like corporate conference centers and operation hubs, only housing activities that require collective physical groups on an as-needed basis. Those activities should not be devalued, but these places are relatively empty shells compared to the Before Times (pre-2020). The large banks’ financial statements tell us that these changes have not hobbled actual financial activity, but the staff does not come to the office every day, and does not want to.

What does all of this mean for Tokyo? Policymakers are faced with more open-ended questions than definitive answers. Making Tokyo a truly cosmopolitan destination for the biggest international financial institutions and their staffs probably requires making adjustments that range from trivial to profound. The more profound changes will (obviously) require more political capital and time, and the return on that effort is hard to quantify. Does the world need more world-class financial centers in an era where finance itself requires fewer
professionals to work in the same buildings? Maybe, maybe not. But Asia is now conspicuous by its absence from the list. If London, New York, and Hong Kong were the hubs of finance from 1990 to 2020, and Hong Kong is now a shadow of its former self, then some of the business it lost is up for grabs—and Tokyo is poised to compete for it. Dematerialization of the workplace is real, but it has limits.

Japan’s financial policy intentions are good, and perhaps the questions just need reframing. Those of us who have lived and worked in Japan embrace its virtues, but as with all cities, Tokyo can be better. The government should take those steps that will keep the city commercially vital and do so primarily for the benefit of growth and prosperity, irrespective of “financial hub” labeling. From a Japanese national perspective, the question is which adjustments deliver the greatest benefits. Japan is a famously safe, orderly, and polite place. Preserving those characteristics is presumably not negotiable. Japan is also a very homogenous, hierarchical, and process-oriented place, with a rapidly aging population that is now in numerical decline. Some of those characteristics will be worth adjusting if changes serve the people as a whole by providing vitality, dynamism, and growth. Moreover, there are ways to test some of the reform proposals before fully committing to irrevocable changes. Now is the time.

Japan generally, and Tokyo specifically, cannot let its policies become trapped in amber during a period when geopolitical tectonics are active, domestic demographics are creating palpable challenges, and fiscal difficulties loom large in the face of monetary regime shifts. In other words, Japan will inevitably adjust—and is already adjusting—to deal with these other macro issues. It will serve the government of Japan well to be proactive, and to implement changes that ensure Tokyo is a desirable destination for foreign professionals, their firms, and the service workers they employ. Labels matter less than the facts on the ground. In any case, Tokyo’s status will not change overnight, even if a radical set of positive reforms is implemented overnight. Tokyo will be a preeminent, revitalized global financial center when—over time—the sum of its virtues entices more global corporations and citizens to vote with their feet and call Japan home. That is how this can play out, and this is the moment to take some substantial steps.

Endnote

1 There are multiple white papers in circulation that list prospective policy adjustments that would make Japan a more attractive regional headquarters destination for global financial firms. The American Chamber of Commerce in Japan (ACCJ) issued a 2021 white paper that is particularly good and includes some of the suggestions mentioned here, among many others. While not declaring itself “definitive,” the ACCJ paper captures most if not all of the thematic areas that foreign firms are likely to care about. For more, see “Reimagining Japan as a Global Financial Center: Create a Globally Leading Financial Center That Will Drive Long-Term Economic Growth,” American Chamber of Commerce in Japan, June 2021, https://www.accj.or.jp/financial-services-white-paper-download.
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Mark Siegel is the managing partner of Chancellors Point Partners LLC. His 40-year career in finance has spanned banking, investment banking, management consulting, and portfolio management. Most recently, he spent 16 years at Elliott Management, which he joined in 2006 in Tokyo, and where he was the founding managing director of Elliott’s then-newest office. He relocated to the New York office in 2008, and there his investment focus was primarily on developed market interest rates and foreign exchange rates. That followed almost 15 years of managing the emerging markets fixed income teams at MassMutual and Putnam Investments. Prior to that, he was an investment banker in the M&A Group at Salomon Brothers, where he worked in both the New York and London offices, and spent significant time in Central and Eastern Europe doing advisory and capital raising assignments shortly after the fall of the Berlin Wall. Earlier experience included working for the Boston Consulting Group and at Continental Illinois. He holds a BA cum laude from Cornell University and received an MBA from Stanford, where he was subsequently a trustee of the Stanford GSB Trust. He currently sits on the board of the Maureen and Mike Mansfield Foundation. He is a life member of the Council on Foreign Relations.

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